ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF NORTHERN INDIANA PUBLIC SERVICE COMPANY FOR APPROVAL OF A GAS COST ADJUSTMENT TO BE APPLICABLE IN THE MONTHS OF MARCH, APRIL AND MAY 2016, PURSUANT TO IND. CODE § 8-1-2-42(g).	)	CAUSE NO. 43629 GCA 37 APPROVED: FEB 24 2016

ORDER OF THE COMMISSION

Presiding Officer:
Jeffery Earl, Administrative Law Judge

On December 30, 2015, in accordance with Ind. Code § 8-1-2-42, Northern Indiana Public Service Company ("NIPSCO") filed its Petition for Gas Cost Adjustment ("GCA") with attached schedules to be applicable for gas service rendered during the months of March, April, and May 2016. On that same date, NIPSCO prefiled the direct testimony and exhibits of the following:

- Katherine A. Cherven, Manager of Compliance in NIPSCO's Rates and Regulatory Finance Department;
- Thomas P. Harmon, Manager, Financial Reporting of NIPSCO at NiSource Corporate Services; and
- Patrick J. Pluard, Director of Portfolio Optimization in NIPSCO's Energy Supply and Trading Department.

On January 29, 2016, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the direct testimony and exhibits of the following:

- Pamela Sue Sargent Haase, CPA, Partner at London Witte Group LLC; and
- Jerome D. Mierzwa, Principal and Vice President of Exeter Associates, Inc.

The Commission held an Evidentiary Hearing in this Cause at 9:30 a.m. on February 15, 2016, in Hearing Room 224, 101 West Washington Street, Indianapolis, Indiana. NIPSCO and the OUCC were present and participated. No members of the general public appeared or sought to testify at the hearing.

Based upon the applicable law and the evidence presented, the Commission finds:

1. **Statutory Notice and Commission Jurisdiction.** Notice of the hearing in this Cause was given and published by the Commission as required by law. NIPSCO is a public utility as defined in Ind. Code § 8-1-2-1(a). Under Ind. Code § 8-1-2-42(g), the Commission has jurisdiction over changes to NIPSCO's rates and charges related to adjustments in gas costs. Therefore, the Commission has jurisdiction over NIPSCO and the subject matter of this Cause.

2. **NIPSCO's Characteristics.** NIPSCO is a corporation organized and existing under the laws of the State of Indiana. NIPSCO's principal office is located at 801 East 86th Avenue, Merrillville, Indiana. NIPSCO renders natural gas utility service to the public in Adams, Allen, Benton, Carroll, Cass, Clinton, DeKalb, Elkhart, Fulton, Howard, Huntington, Jasper, Kosciusko, LaGrange, Lake, LaPorte, Marshall, Miami, Newton, Noble, Porter, Pulaski, St. Joseph, Starke, Steuben, Tippecanoe, Tipton, Wabash, Warren, Wells, White, and Whitley counties in Indiana and owns, operates, manages, and controls plant and equipment for the distribution and furnishing of such service.

3. **Source of Natural Gas.** Ind. Code § 8-1-2-42(g)(3)(A) requires NIPSCO to make every reasonable effort to acquire long-term gas supplies so as to provide gas to its retail customers at the lowest gas cost reasonably possible.

Mr. Pluard said that NIPSCO manages a balanced and fully diversified gas supply portfolio that includes a variety of commodity, transportation and storage resources. The commodity portfolio is balanced with a combination of fixed-price (physical and financial) and market-based purchases. NIPSCO diversifies its supply by acquiring gas from a number of suppliers from multiple supply areas through a competitive bidding process and the utilization of a variety of pricing. These gas supplies are delivered to NIPSCO pursuant to firm transportation contracts with seven interstate gas pipelines, providing access to many different supply basins. NIPSCO also has several firm contractual storage services as well as on-system storage capability to meet its gas customers' requirements. The storage portfolio is further diversified through a variety of storage service types in both the market area and producing regions.

Mr. Pluard testified NIPSCO has firm transportation contracts with Natural Gas Pipeline Company of America ("Natural"), Panhandle Eastern Pipe Line Company ("Panhandle"), Trunkline Gas Company ("Trunkline"), ANR Pipeline Company ("ANR"), Vector Pipeline ("Vector"), Crossroads Pipeline ("Crossroads") and DTE Gas Company ("DTE"), which give NIPSCO access to a diverse range of supply regions. After allocations to the Choice customer suppliers, the long-term, firm, transportation contracts with Natural, Panhandle, Trunkline, ANR, Vector, Crossroads and DTE have an aggregate maximum daily quantity during the peak season of approximately 455,000 Dth per day.

With regard to storage, Mr. Pluard said that firm storage service contracts with Natural, Panhandle, ANR, Moss Bluff Hub Partners, L.P., Washington 10 Storage Corporation, and Egan Hub Partners, L.P. provide an annual peak working storage capability of approximately 32,300,000 Dth, with maximum daily withdrawal capability of approximately 607,000 Dth to meet winter peaks, after allocations to the Choice customer suppliers. Mr. Pluard testified there have been no material changes in NIPSCO's Request for Proposal process. Mr. Mierzwa testified that the OUCC's audit "revealed that NIPSCO reasonably administered the assignment of capacity to Choice Suppliers."

The Commission has indicated that Indiana's gas utilities should make reasonable efforts to mitigate gas price volatility. This includes a program that considers market conditions and the price of natural gas on both current and forward-looking bases. Based on the evidence presented, we find that NIPSCO has and continues to follow a policy of securing natural gas supply at the lowest gas cost reasonably possible in order to meet anticipated customer requirements. Therefore, we find the requirement of this statutory provision has been fulfilled.

4. **Purchased Gas Cost Rates.** Ind. Code § 8-1-2-42(g)(3)(B) requires that NIPSCO's pipeline suppliers have requested or filed pursuant to the jurisdiction and procedures of a duly constituted regulatory authority the costs proposed to be included in the GCA factor. The evidence of record shows that the proposed gas costs include transport rates that have been filed by NIPSCO's pipeline suppliers in accordance with Federal Energy Regulatory Commission procedures. We have reviewed the cost of gas included in the proposed gas cost adjustment charge and find the cost to be reasonable. Therefore, we find that the requirement of this statutory provision has been fulfilled.

5. **Earnings Test.** Ind. Code § 8-1-2-42(g)(3)(C), in effect, prohibits approval of a GCA factor that results in NIPSCO earning a return in excess of the return authorized by the last Commission Order in which NIPSCO's basic rates and charges were approved. NIPSCO's current basic rates and charges were approved on November 4, 2010 in Cause No. 43894. The Commission authorized NIPSCO to earn a net operating income ("NOI") of $39,841,895. In the May 31, 2011 Order in Consolidated Cause Nos. 43941, 43942, and 43943 ("Merger Order"), the Commission authorized an incremental annual NOI of $4,602,071 associated with the merger of Kokomo Gas and Fuel Company and Northern Indiana Fuel & Light Co. into NIPSCO. In the January 28, 2015 Order in Cause No. 44403 TDSIC 1 regarding the Transmission, Distribution, and Storage System Improvement Charge ("TDSIC"), the Commission authorized the inclusion of net operating income realized as a result of the TDSIC tracker. For the 12 months ended September 30, 2015 the TDSIC operating income was $135,089, resulting in a total authorized NOI of $44,579,055.

The net operating income calculated in this Cause is calculated in accordance with the provisions of the Merger Order. NIPSCO's evidence indicates that for the 12 months ending September 30, 2015, NIPSCO's actual net operating income was $56,624,897. Therefore, we find that NIPSCO is earning a return in excess of that authorized in its last rate case.

Because NIPSCO's return exceeds the amount authorized, Ind. Code § 8-1-2-42.3 requires the Commission to determine the amount, if any, of the return to be refunded to customers through the variance in this Cause. A refund is only appropriate if the sum of the differentials (both positive and negative) between the determined return and the authorized return during the relevant period, as defined by Ind. Code § 8-1-2-42.3(a), is greater than zero. Based on the evidence, we find that the sum of the differentials during the relevant period is less than zero, and therefore, no refund is required in this Cause.

6. **Estimation of Purchased Gas Costs.** Ind. Code § 8-1-2-42(g)(3)(D) requires that NIPSCO's estimate of its prospective average gas costs for each future recovery period be reasonable. The Commission has determined that a comparison of the variance to the incremental cost of gas on Schedule 13 be used to determine if the prior estimates are reasonable when compared to the corresponding actual costs. A 12-month rolling average comparison helps to eliminate the inherent variance related to cycle billing and seasonal fluctuations. The evidence presented indicates that NIPSCO's 12-month rolling average comparison was negative 14.36% for the period ending November 30, 2015. Ms. Cherven explained that for the month of November 2015, the benchmark of 10% set by the Commission was exceeded. However, Ms. Cherven noted

that due to changes in GCA procedures implemented in June of 2015 as a result of the Commission's August 27, 2014 Order in Cause No. 44374 (the "GCA Investigation Order"), the excess in this month is procedural as opposed to operational. Therefore, for this year, the rate is reasonable. Mr. Pluard further explained that the new GCA procedures implemented in the GCA Investigation Order have resulted in a one-time "transition period," during which the normal under-collections from June through October are no longer available to offset last winter's over-collections. Mr. Pluard stated that NIPSCO expects this variance to fall below the 10% variance level early next year, after the transition period is complete. Based on NIPSCO's historical accuracy in estimating the cost of gas, we find that NIPSCO's estimating techniques are sound and NIPSCO's prospective average estimate of gas costs is reasonable.

7. Reconciliations.

A. Variances. Ind. Code § 8-1-2-42(g)(3)(D) also requires that NIPSCO reconcile its estimate for a previous recovery period with the actual purchased gas cost for that period. The evidence presented in this proceeding establishes that the commodity and bad debt variance for the months of September 2015 through November 2015 ("Reconciliation Period") is an under-collection of $11,862,037 from its customers. This amount should be included, based on estimated sales percentages, in this GCA and the next three GCAs. The amount of the Reconciliation Period variance to be included in this GCA as an increase in the estimated net cost of gas is $2,735,633.

The commodity and bad debt variance from prior recovery periods applicable to the current recovery period is an over-collection of $10,483,293. Combining this amount with the Reconciliation Period commodity variance to be included in this GCA results in a total over-collection of $7,747,660 to be applied in this GCA as a decrease in the estimated net cost of gas.

The evidence presented in this proceeding establishes that the demand variance for the Reconciliation Period is an under-collection of $2,547,785 from its customers. This amount should be included, based on estimated sales percentages, in this GCA and the next three GCAs. The amount of the Reconciliation Period demand variance to be included in this GCA as an increase in the estimated net cost of gas is $587,468.

The demand variance from prior recovery periods applicable to the current recovery period is an over-collection of $5,193,923. Combining this amount with the Reconciliation Period demand variance to be included in this GCA results in a total over-collection of $4,606,455 to be applied to this GCA as a decrease in the estimated net cost of gas.

B. Refunds. NIPSCO received no new refunds during the Reconciliation Period. NIPSCO has $0 in refunds from prior periods applicable to the current recovery period. Therefore, NIPSCO has $0 in refunds to be applied in this GCA as reflected on Schedule 12A.

8. Resulting Gas Cost Adjustment Factor. The estimated net cost of gas to be recovered for March 2016 is $27,209,284, for April 2016 is $10,966,250, and for May 2016 is $4,924,962. Adjusting these totals for the variance and refund amounts yields gas costs to be recovered through the GCA factor of $20,676,953 for March 2016, $7,191,146 for April 2016, and $2,878,282 for May 2016. After dividing these amounts by the appropriate estimated sales, adding demand costs, and adjusting for Bad Debt expense as provided in Cause No. 43894, and Indiana Utility Receipts Tax, NIPSCO's recommended GCA factors are:

	Estimated GCA per Dth		
Rate Class	**March 2016**	**April 2016**	**May 2016**
Residential	$2.736	$2.175	$2.612
General Service	$3.016	$2.509	$3.055

9. Effects on Residential Customers. Based on the GCA factors shown above, the table below shows the gas costs a residential customer will incur under the proposed GCA factor based on 10 Dth of usage. The table also compares the proposed gas costs to what a residential customer paid most recently (December 2015 - $3.199/Dth) and a year ago (March 2015 - $5.773/Dth, April 2015 - $4.221/Dth, and May 2015 - $3.624/Dth). The table reflects costs approved through the GCA process. It does not include NIPSCO's base rates or any applicable rate adjustment mechanisms.

		Current		**Year Ago**	
Month	**Proposed Gas Costs (10 Dth)**	**Gas Costs (10 Dth)**	**Difference**	**Gas Costs (10 Dth)**	**Difference**
March 2016	$27.36	$31.99	($4.63)	$57.73	($30.37)
April 2016	$21.75	$31.99	($10.24)	$42.21	($20.46)
May 2016	$26.12	$31.99	($5.87)	$36.24	($10.12)

10. Modification of Appendix B. Ms. Cherven testified Appendix B shows that the Gas Cost Adjustment Factor is applicable to Rider 431. Effective with the Commission's November 5, 2010 Order in Cause No. 43894, Rider 431 for Commercial and Industrial Temporary Emergency Service is based on City-Gate pricing not a GCA rate. Accordingly, NIPSCO is proposing to remove the reference to "Rider 431" from the first paragraph and the second set of rates. A red-lined version of Appendix B was attached to Ms. Cherven's testimony as Exhibit No. 1-C. No party objected to this proposed modification. We approve Petitioner's proposed modification.

11. Interim Rates. We are unable to determine whether Petitioner will earn an excess return while these GCA factors are in effect. Accordingly, the rates approved in this Order are interim rates subject to refund pending reconciliation in the event an excess return is earned.

12. Monthly Flex Mechanism. The Commission indicated in prior Orders that Indiana's gas utilities should make reasonable efforts to mitigate gas price volatility. NIPSCO's approved monthly flex mechanism is designed to address the Commission's concerns. Therefore, NIPSCO may utilize a monthly flex mechanism to adjust the GCA factor for the subsequent month. The flex mechanism applies to the mix of volumes between spot, fixed, and storage gas purchases as long as the total volumes remain unchanged from the utility's total monthly volume of gas estimated in this GCA proceeding. The flex mechanism is to be filed no later than three business days before the beginning of each calendar month during the GCA quarter. Market purchases in the flex are to be priced at NYMEX prices on a day no more than ten business days prior to the beginning of said calendar month. Changes in the market price included in the flex mechanism are limited to a maximum adjustment (higher or lower) of $1.00 from the initial market price in this GCA proceeding. Finally, NIPSCO shall file all material that supports its decision to flex or not to flex as outlined in our Order in Cause No. 44374.

IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

1. The Petition of Northern Indiana Public Service Company for a gas cost adjustment for natural gas service, as set forth in Paragraph No. 8, is approved, subject to refund in accordance with Paragraph 11.

2. Petitioner's modification to Appendix B – Gas Cost Adjustment Factor is approved.

3. Prior to implementing the GCA factors approved above, or any future flexed factor, NIPSCO shall file the applicable rate schedules under this Cause for approval by the Commission's Energy Division.

4. This Order shall be effective on and after the date of its approval.

STEPHAN, MAYS-MEDLEY, HUSTON, AND ZIEGNER CONCUR; WEBER NOT PARTICIPATING:

APPROVED: FEB 24 2016

I hereby certify that the above is a true and correct copy of the order as approved.

Shala M. Coe

Shala M. Coe
Acting Secretary to the Commission